

MEXICO'S NATIONAL INTEREST IN DRUG PROFITS

BY

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USAWC CIVILIAN RESEARCH PROJECT

MEXICO'S NATIONAL INTEREST IN DRUG PROFITS

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MEXICO'S NATIONAL INTEREST IN DRUG PROFITS

INTRODUCTION

Violence in Mexico increases daily as President Felipe Calderón continues the policy of committing military forces to perform law enforcement tasks throughout Mexico, replacing corrupt state and municipal police who are compromised by the cartels. On March 4, 2011, an organization calling itself the United Cartels sent an electronic mail message to the Mexican president (it was also posted on banners in various Mexican states), asking him to commit the armed forces in a joint effort with the United Cartels to eliminate the *Los Zetas* organization. After this was accomplished, the government could return to the task of combating the drug cartels; they were not asking for impunity or some sort of pact. In the meantime, the senseless bloodletting and killing of innocent people in Mexico would cease with the end of *Los Zetas*.¹ This open letter from a group of organized crime leaders to the head of state asking for an alliance against another criminal group reflects the lack of a clear authority in the current Mexican political environment. Mexico currently has no governmental consensus to renounce the enormous drug profits flowing into the country from sales in the United States as harmful to Mexican national interests. Any U.S. drug control strategy must accept this fact at the outset in determining the prospects for success.

Some saw this violent situation approaching from the horizon when the Institutional Revolutionary Party (PRI) lost its majority in the Mexican Congress in the summer of 1997. In a January 2, 1998 article in the Mexican newspaper *El Universal*, Demetrio Javier Sodi de la Tijera (who has served in elected positions with all three of the major Mexican political parties) wrote,

There currently exists in Mexico an alarming political vacuum. We are trapped in the midst of a transition from a presidentialist and centralist system that no longer functions, toward a plural democratic system that has not been consolidated. The violence, the insecurity, the lack of dialog, and the permanent political tension that we live are all products of that power vacuum and from the lack of profound democratic reform.²

Mexican Nobel laureate Octavio Paz wrote,

We are witnessing the end of the PRI system, which could pave the way for a multiparty system; but if we don't achieve that, if the different forces don't succeed in agreeing on a peaceful transition toward a new political situation, we will have demonstrations, possible violence in the countryside and in the cities, internal fighting, or something like that . . . in the long run, the forces of openness, modernization, and democracy will prevail, but it will be a very painful, very difficult road.³

This paper will examine why Mexico's government and other elements of society remain divided on whether or not the enormous drug profits that flow into Mexico are harmful to the nation's interests. First, the paper examines the amount of money in the drug profits. Second, the paper will discuss competing interests among the various stakeholders within Mexican government and society. Third, the paper comments the Mexican government responses to two money laundering cases (Operation Casablanca in 1998 and the Wachovia case of 2010) as evidence of competing interests. Fourth, the paper discusses barriers to shared interest between the United States and Mexico in the drug war. Finally, the paper presents recommendations for action based on the recognition that powerful interests in Mexico want to continue the flow of drug profits.

HOW MUCH MONEY IS INVOLVED?

While estimates vary concerning the amount of money each year produced by drug sales in the United States and returned to Mexico, the amount is enormous and the profit margins from narcotics manufacture and sale are striking.

What keeps the drug industry going is its huge profit margins. Producing drugs is a very cheap process. Like any commodities business the closer you are to the source the cheaper the product. Processed cocaine is available in Colombia for \$1500 dollars per kilo and sold on the streets of America for as much as \$66,000 a kilo (retail). Heroin costs \$2,600/kilo in Pakistan, but can be sold on the streets of America for \$130,000/kilo (retail). And synthetics like methamphetamine are often even cheaper to manufacture costing approximately \$300 to \$500 per kilo to produce in clandestine labs in the U.S. and abroad and sold on U.S. streets for up to \$60,000/kilo (retail).⁴

A joint U.S.- Mexican study released in June 2010 stated that more than half of the between 19 and 29 billion dollars in drug profits moving south into Mexico from the United States each year elude detection in Mexico's cash- based economy (75% of economic transactions in Mexico, in the formal or informal economy, are conducted in cash). Cartels can thus launder their profits in all-cash purchases of large tracts of land, hotels, cars and dealerships, and other high-end items.⁵ John Morton, a U.S. Immigrations and Customs Enforcement assistant secretary, discussed some of the joint report's findings at a small news conference in Mexico City where he was joined by U.S. Ambassador to Mexico Carlos Pascual. Morton noted that arresting cartel members would not solve the problem. Authorities had to undermine the cartels as business organizations by forcing them to forfeit their profits through identification and seizure by government monitors.⁶

As discussed previously, U.S. policy makers should not expect that all Mexican entities, government or private, will turn their backs on such a quantity of cash simply because it was acquired through illegal means. In 2008, legitimate remittances from Mexicans working in the United States totaled 25.3 billion dollars, which is roughly three percent of Mexican gross domestic product, equal to nearly sixty percent of oil export revenues, and in excess of foreign direct investment by thirty percent.⁷ Official reports by the U.S. State Department estimate the value of drug trafficking profits (\$15 - \$30 billion) as possibly larger than these legitimate remittances.⁸ A January 2009 report by the International Monetary Fund noted that Mexican authorities could not provide an estimate on the amount (of drug proceeds generated in consuming countries) that is transferred directly to Mexico. The authorities cited insufficient reliable empirical evidence, as well as the large portion of the informal economy in Mexico associated with remittances from Mexican immigrant workers that now use informal transfer systems due to tighter migration controls in the United States.⁹ Consider the value a classic cross-border corporate merger, such as the acquisition of Banamex by Citigroup in 2001 for 12.5 billion dollars. There are groups within Mexico that do not want to stop the flow of drug

profits; they benefit greatly from this mountain of illicit funds that exceeds the value of a legitimate Wall Street bank merger transaction and even the total amount of foreign direct investment annually in the country.¹⁰ The amount of money flowing into Mexico from the drug trade has in fact compromised all executive, legislative, and judicial institutions in the country to varying extents.¹¹ The profit margins in the drug trade make it very clear that halting the flow of narcotics into the United States does not support the economic interests of some groups within Mexico.¹² Mexican exports to the United States totaled 185 billion dollars in 2009.¹³ Actual profits from these exports are not even close to the level reached by the narcotics trade. Legitimate export business to the United States simply cannot emerge within a short time frame to replace the profits from drug trafficking. As an example of a very large, successful business that cannot even begin to approach the cartels' profit margins, consider Crown Exports LLC, the company that imports *Corona Extra* beer (the most popular imported beer in the USA) into the United States from Mexico's Grupo Modelo SAB (as well as other brands). Crown Exports had net sales of 503 million dollars and operating profits of only 108 million dollars in the first quarter of 2008.¹⁴ As we shall see later, more than Crown's quarterly profit was found in cash in the house of an individual who imported drug manufacturing chemicals into Mexico.

COMPETING INTERESTS IN MEXICO

The future of Mexico is perilous and remains the battleground of several competing interests. On one side are those who seek democratic change and a multi-party, competitive system of political dialog. Another side is composed of those elements in the Institutional Revolutionary Party who do not want change for any reason and continue to fight democratization with all the traditional political tools associated with that party. Another group resisting change are organized criminals, who have watched the breakdown of the PRI system and thought they were out of reach of the lawful authorities until President Calderón sent the military to fight them.¹⁵

Previous Mexican presidents have noted the problem of drug violence in their country and a need to confront it. They have consistently focused on the need for demand reduction in the United States, as opposed to supply reduction from Mexico. In his 1993 commencement address at the Massachusetts Institute of Technology, President Carlos Salinas de Gortari noted that Mexico was not a drug-consuming nation, but that drug traffickers did pass through the country enroute to other markets and left a trail of pain, indignation, and tragedy in their wake. He noted that for Mexico, the cost of fighting drug trafficking was as high as the traffickers' profits from other countries, and that those profits must be reduced.¹⁶ At the June 1998 United Nations Drug Summit, President Bill Clinton asked UN member states to stop pointing fingers and instead increase cooperation. Mexican President Ernesto Zedillo Ponce de León responded in his own address at the same summit that each nation must respect the sovereignty of other nations so that no one becomes a judge of others; that no state should feel entitled to violate other countries' laws for the sake of enforcing its own; that demand was overwhelmingly from countries with the largest economic capacity; that the human, social and institutional costs in meeting such demands was paid for by the producing and transit countries; that men and women from developing countries were the first to die combating drug trafficking; that developing communities were the first to suffer from violence; and that developing nation institutions were the first undermined by corruption."¹⁷ In an April 2011 visit to Texas A&M University, former Mexican President Vicente Fox Quesada noted that there were "bad problems" in Mexico, but that Mexico was not a drug-consuming or producing nation, but rather found itself trapped in an awkward position as a transshipment point between the drug-producing countries of the Andean region of South America and the drug-consuming nation of the United States. Fox cited a CATO Institute study that noted how drug decriminalization in Portugal had reduced consumption significantly.^{18,19}

With all of these former presidents before Calderón noting the problem of trafficking through Mexico, the lack of a consensus among all important political and economic

stakeholders to stop the flow of drug profits is puzzling. An important fact to consider, when thinking about Mexican attitudes towards the drug trade, is that numerous Mexican officials, from federal government ministries down to local police stations, have received payments from the drug cartels in return for sins of commission or omission.²⁰ Many officials still consider the taking of bribes from the drug cartels as an acceptable action in the traditional Institutional Revolutionary Party (PRI) patron-client relationship.²¹ In any Mexican government organization today, no one is sure who is on the cartels' payrolls and who is not. This inhibits the ability of honest Mexican officials to perform their duties. Now couple this nefarious cartel presence at all levels of government with a dysfunctional judicial system; the National Commission on Human Rights in Mexico estimated that of every 100 crimes in Mexico, only one results in a conviction and sentence.²² Cartel violence has also intimidated the press in reporting on drug violence in Mexico.²³ Consider the following vignette as an example of conflicting loyalties within Mexican military and law enforcement agencies. Late on February 2, 2011, gunmen in Nuevo Laredo executed 66-year old retired Mexican Army Brigadier General Manuel Farfan Carriola and one of his aides. Just a month previously, the Mexican government appointed Carriola as Chief of the Public Safety Secretariat for the city of Nuevo Laredo. Incident reports state that the gunmen disarmed Carriola's bodyguards, but did not kill them. Other reports state that the *Los Zetas* organization had instructed Carriola to appoint one of its associates from the Nuevo Laredo Police Department as his second-in command. When Carriola refused, *Los Zetas* gunmen killed him and the individual he chose to appoint to the position.²⁴ Further reports indicate that Mexican soldiers arriving at the scene later disarmed the bodyguards, held them at gunpoint, and made them wait for paramedics to arrive to treat wounds they had suffered at the hands of the gunmen. The report also stated that the Mexican army soldiers fired on Nuevo Laredo police officers responding to the incident.²⁵ Yet another report stated that the soldiers thought the bodyguards were actually the gunmen and therefore detained them.²⁶ This incident paints a confusing picture of police, soldiers, and personal bodyguards and their roles in the

incident. No one detained or killed any of the gunmen; this is a fact quite common in analyzing such killings in Mexico.

This impunity highlights the painful fact that in Mexico, significant political and economic forces do not have the same interests as the United States in stopping the flow of drug profits south of the border. Mexican government officials who oppose the drug cartels and want to shut down their operations simply do not have the support of a consensus that the war against the cartels is worthwhile and that the enormous quantity of money from the cartels' business is harmful to Mexico as a whole; honest officials in fact risk their lives and those of their families if they oppose the cartels in the performance of their duties. By October 2010, for example, attacks on law enforcement officials in Ciudad Juarez had already resulted in the deaths of 44 municipal police officers, 21 state police officers, 29 federal police officers, three transit officers, three prison officers, and two investigators for prosecutors during that year alone.²⁷ The dysfunctional nature of the federal legislative branch in Mexico City contributes considerably to this lack of consensus on the need to stop the drug trade among Mexico's elite, even though the common Mexican citizens whom these legislators supposedly represent die in increasing numbers each month as drug-related violence consumes the nation. Intolerance between and among parties thrives and continually impels deadlock and drift—except for bills important to special interests. Other measures that amplify the establishment/grassroots chasm include a prohibition on independent candidacies; the heavy-handed hegemony of party chiefs in selecting nominees and ranking them on proportional representation lists used to select one-fourth the Senate and two-fifths of the Chamber of Deputies; disallowing deputies, senators, governors, state legislators, and mayors from serving consecutive terms in their offices; and failing to forge a coherent, responsible Left. These characteristics of Mexican politics, combined with the fact that so many lawmakers lack defined constituencies, oppose the advancement of the interest of average citizens.²⁸

The consensus among Mexican citizens is clearly that violence associated with the war against the drug cartels needs to end for the overall good of Mexico, either through a government victory or a negotiated settlement. Javier Sicilia, a poet and columnist for the daily newspaper *La Jornada* in Mexico, as well as for the weekly paper *Proceso*, lost his own son to a drug-related murder recently. He called President Calderón's war on the drug cartels a poorly designed, managed, and led operation that has left Mexico in a state of emergency. Sicilia stated that the government should negotiate with the cartels; the conflict would end in a pact, sooner or later.²⁹ Polling also shows that support for the drug war among the populace is declining. A telephonic poll conducted by *Demotecnia* in March 2011 found that 59% of Mexicans thought the country was worse off than when President Calderón took office in 2006, 59% thought the cartels had the upper hand in the drug war, and 67% thought that Calderón was losing control of the country.³⁰ An April 2010 Pew Research poll found that 79% of Mexicans were dissatisfied with the way things were going in Mexico, 80% supported using the army against drug traffickers, and 55% thought the army was making progress against the cartels. In 2009, the Pew figures on the army-related questions were 83% and 66%, respectively.³¹

Apart from the government and the Mexican populace, the drug cartels also have a new vision for Mexico. These syndicates certainly do not want the Mexican state to become a failed one; such a situation would invite a U.S. military intervention. Evidence of this desire to preserve the sovereignty of the Mexican state is readily apparent in the acute difference between the number of murders in Mexican border towns as compared to their twin cities north of the Rio Grande. Consider Ciudad Juarez and El Paso, Texas: the latter is the safest large city in the United States, right across the border from the most dangerous city in Mexico.³² Instead, the cartels seek a sort of dual sovereignty; their own regime parallel to the elected one so that they can maximize their profits without fear of interference from government officials. This is a significant departure from the old PRI patron-client relationship.³³

Joint Operating Environment 2008 noted that a growing assault by drug cartels and their gunmen on the Mexican government over the past several years could create an unstable Mexico that would present a U.S. homeland security problem of immense proportions. The failed states section included a consideration of the consequences of a sudden governmental collapse in Mexico.³⁴ *Joint Operating Environment 2010* removed the failed state references to Mexico and instead noted the size and importance of Mexico. The report mentioned eight to ten billion dollars each year of bulk cash moved into Mexico above and beyond conventional bank transfers, as well as the need for U.S. - Mexican cooperation to cut off the shipment of illegal drugs. The report identified the critical tasks of mitigating violence, changing the problem from a national security one to a public security/law enforcement one, and raising the opportunity cost for doing drug business in Mexico.³⁵ U.S. State Department reports cite impressive progress towards accomplishing these tasks, encouraging the Mexican government to continue its brave efforts against the vicious drug cartels.³⁶ Does the Mexican government see the drug war as an issue of national security? David Gaddis, the U.S. Drug Enforcement Agency's Chief for Global Enforcement Operations, says yes. He also says that the United States has to look seriously at the problem, as it is the country's number one organized crime threat.³⁷ But his viewpoint as an American official in the Drug Enforcement Agency is not representative of all factions within the Mexican government.

All the cartels are not regarded as threats to the sovereignty and security of the Mexican state. Strong evidence points to the government-supported establishment of a single dominant cartel, somewhat like the situation that existed under the PRI before the splintering of the drug trade and violent competition among newly autonomous organizations for the trafficking routes into the United States.³⁸ A former governor of the State of Nuevo Leon noted that in the PRI era, there was not an internal drug consumption problem in Mexico, nor was there a problem with robbery, kidnappings for ransom, and extortion by delinquent groups. The PRI's strong presidents had iron control over the army to maintain the social peace. In September 2010,

Mexican Secretary of Defense General Guillermo Galván Galván told a group of Mexican legislators that President Calderón's military offensive against the cartels would not only increase violence against government officials and security forces, but also increase the cartel's efforts to coopt the authorities. After a rise in violence, it was quite possible that the killing would stop if the other cartels united to eliminate *Los Zetas*. The general also said it was equally possible that the intensity of the government military offensive would force the cartels to unite officially and return to the former hidden, relatively non-violent methods of the drug trade. He concluded by stating that given the information that he had at the time, it would be rash to predict a date when the violence might subside, and that currently there was no entity in the Mexican state that was exempt from criminal activity associated with the drug trade.³⁹ A recent STRATFOR report stated,

Wherever there is a conflict in Mexico between or among a cartel's current or former factions, you will find Sinaloa's helpful hand. And in every case Sinaloa is gaining territory. While internal strife and external pressure from the Mexican military and federal law enforcement agencies have weakened all of the other cartels, the Sinaloa Federation has proved impervious to the turmoil — and it is growing.⁴⁰

Powerful Mexican interests encourage the flow of drug profits, regardless of criminal violence, lack of the rule of law, or opportunity costs to the traffickers. Jose Luis Piñeyro, a professor at the Autonomous Metropolitan University in Mexico City who studies organized crime and security issues, stated that the Calderón government has actually done very little to attack the financial nervous system of organized crime. Weapons and cash are sometimes confiscated as part of operations against the cartels, but no systematic monitoring aimed at identifying financial operations that may involve money laundering has occurred. If this were happening, important individuals in the political and business world of Mexico would appear in television and newspaper reports linking them to the country's organized crime structures. Again pointing to the lack of a consensus that drug profits really do harm Mexico, Piñeyro commented that President Calderón and other government officials lack the political will to attack the financial

structures of organized crime. No key individual or group within the Mexico's political elite is willing to enter this hornet nest to pursue the problem to the highest political and economic levels of Mexican society and put a stop to the illegal money flow.⁴¹

The press has made much comment concerning President Felipe Calderón's commitment of the Mexican army and marines to fight the drug cartels since 2006, primarily by using military units to replace corrupt police organizations.^{42,43} But the Mexican army has participated in the drug war in some form for much longer than that, dating back to Plan Condor in 1977.⁴⁴ Since the Mexican Revolution, the country's military has evolved into a force suited only for internal defense, yet the Mexican military has doubled in size since 1985.⁴⁵ Through involvement in the drug war, the Mexican military establishment has experienced an associated increase in budget, positions, and authority within the society.

An indeterminable number of units in the Mexican military have become part of what is essentially a government-financed criminal organization.^{46,47} The Mexican government's military actions ostensibly focus on stopping the violence among the cartels and by the cartels against the populace. Corrupt military units remain willing to participate in this fight, to include using force in favor of one cartel, but this participation does not necessarily impede the constant flow of drug money into Mexico.⁴⁸ This military action might placate the United States, but it does not do much to stop drug traffic. Simply stated, the fight against the cartels has already compromised the Mexican military, just as it has already compromised the various levels of police.⁴⁹ Elements within the Mexican military do not want to stop drug trafficking; their purpose is more sinister. These military units conduct operations among the drug cartels, but the purpose is not to stop the trade, but rather influence who conducts this trade and who profits from it, while not reducing the overall drug profits flowing into Mexico. Even the reputed leader of the feared *Los Zetas*, Heriberto Lazcano-Lazcano, was an original member of the elite Airmobile Special Forces Group, a Mexican Army unit initially assigned the mission to fight the cartels.⁵⁰

Drugs are big money and no country has better access to the lucrative market in the United States than Mexico. If individual Mexican officials or journalists run afoul of the cartels' *plata o plomo* (money or lead) policy, some may die,⁵¹ but the integrity of the state is not threatened in terms of the government falling from power or part of Mexico seceding to become its own sovereign entity. The cartels want Mexico to exist as a sovereign state with compliant officials that allow the drug trafficking organizations to conduct their business.⁵² Violent crime and kidnapping statistics increase in different areas of the country, particularly the northern border areas,⁵³ but these crimes might stem as much from a sense of impunity that perpetuates Mexico and abuse of authority by the police and military as they do from the drug cartel fight.⁵⁴ In April 2011, the United Nations Working Group on Enforced or Involuntary Disappearances recommended that the Mexican government withdraw the military from the fight against drug cartels, citing a rise in abuse claims against the National Defense Ministry from fewer than 200 in 2006 to over 1,500 in 2010. The report also noted an official count of 8,898 unidentified corpses since late 2006, as well as 5,397 unresolved disappearances of people in the same time frame. The working group also noted that because troops are tried in military courts instead of civil courts for rights abuses, most cases go unpunished. These charges against Mexican soldiers range from torturing detainees to engaging in enforced disappearances before handing suspects over to civil authorities. The UN report cited data showing the kidnapping of 11,333 Central and South American migrants passing through Mexico during a six-month period in 2010, with 8.9% of these kidnappings involving federal, state, and municipal police, as well as officials from the National Immigration Institute.⁵⁵ In the ongoing investigation of 177 bodies discovered in mass graves in San Fernando, Tamaulipas State during April 2011, authorities have already arrested 17 police officers for allegedly protecting *Los Zetas* gunmen when the massacres took place.⁵⁶ The Inter-American Court of Human Rights, an arm of the Organization of American States based in San Jose, Costa Rica, has ruled against Mexico in 4 cases recently. All cases involved incidents from before 2006; three involved abuses by the

Mexican military. Activists noted that the rulings establish a long-standard of impunity for Mexican military forces accused of human rights abuses.⁵⁷

The United States must accept the fact that Mexico cannot make a truly committed effort to stop the flow of drug money because it is simply not in the political and economic interests of powerful stakeholders within the state to do so. The flow of drug money arms the cartels, allows them to expand their operations, and provides them with the funds to bribe Mexican officials at all levels, from the highest officials in the attorney general's office to Mexican army platoon leaders patrolling the border.^{58,59} At least some of these officials will remain willing to receive such bribes until an honest and reliable police and judicial systems take hold in a nation that has really never had either of these things in its decidedly undemocratic past.^{60,61}

MEXICAN ACTION AGAINST MONEY LAUNDERING

The divided interests within Mexico about drug profits and the need to stop their flow into Mexico is illustrated by two major money laundering cases exposed by the United States federal government. In each case, note that certain elements within the Mexican government attempt to use political and other tools to thwart comprehensive reform and action against money laundering, to include the outright denial that such laundering is a serious problem in the Mexican financial system. Both cases also show complicity in the money laundering scheme by some entities within the United States. In May 18, 1998, following a three-year undercover operation (called Operation Casablanca), a federal grand jury in Los Angeles indicted three Mexican banks and 26 Mexican bankers for laundering hundreds of millions of dollars in drug profits from the United States sales of the Colombian Cali cartel and the Mexican Juarez cartel. The 26 bankers arrested represented 12 of Mexico's 19 largest banking institutions. Treasury Secretary Robert Rubin and Attorney General Janet Reno did not contact their Mexican counterparts until two hours before announcing the indictment. The president of the Mexican Bank Association, Carlos Gomez y Gomez, noted that individuals had committed the alleged crimes and that laundering was not a systemic practice of Mexican banks! The investigation

had used U.S. Customs undercover agents who posed as middlemen between cartel financial directors and the Mexican bankers. These bankers, mostly mid-level executives at their institutions, had agreed to launder the funds for a four to five percent fee. They had established false accounts and used bank drafts to evade Mexican money laundering regulations. At the time, a Citibank private banking vice-president in the United States was also under investigation on suspicion of drug money laundering in accounts that she had handled involving the brother of a former Mexican president.⁶² The Federal Reserve announced on May 18, 1998 (simultaneous to the indictment by Treasury and Justice) that it had filed civil actions against five foreign banks (four Mexican and one Spanish) with branches in the United States, including Bancomer, Banco Serfin, Banco Nacional de Mexico, Banco Internacional, and Banco Santander.⁶³

On May 22, 1998, Mexican Attorney General Jorge Madrazo Cuellar formally protested Operation Casablanca, stating that American agents had deceived Mexican officials in making them believe that the entire operation had been conducted inside the United States. President Ernesto Zedillo said the hidden operation in Mexican territory violated several bilateral agreements and the spirit of a close relationship between the two countries. Mexican officials also said the U.S. undercover agents and their confidential informants broke several Mexican laws (sting operations are illegal in Mexico). The Mexican government outwardly continued to cooperate with the investigation, arresting just five Mexican bank employees and seizing 129 bank accounts containing approximately \$1.7 million! Mexican Senator Eduardo Andrade of the PRI said in congressional debate in Mexico City that, "The Americans should know that we will not bow to any tutelage of theirs." Acknowledging the strong backlash from Mexico City, Attorney General Janet Reno commented that the "operation should in no way be seen as an indictment of Mexico or the Mexican banking system."⁶⁴ President Clinton later called President Zedillo to express that better prior consultation had not been possible in the case, as U.S. authorities feared endangering the undercover agents.⁶⁵ Some weeks later, at a news

conference closing of the annual meeting of the U.S. and Mexican cabinets, Secretary of State Madeleine Albright noted the Mexican threats to bring charges against the U.S. agents and their confidential informants. Attempting to encourage Mexican cooperation, Albright stated, "I do think that prosecution and extradition would be counterproductive. . . . We have to keep our mind on what it is we're trying to do together, which is to get those who are engaged in criminal activities that are damaging both our countries." Mexican Foreign Secretary Rosario Green said that while the two governments should not dwell on past mistakes, the Mexican attorney general had no choice but to investigate whether Operation Casablanca had broken any Mexican laws. Albright wrote a letter to Treasury Secretary Robert Rubin for not consulting the Department of State on Casablanca so that she might have informed the Mexicans earlier about the indictments.⁶⁶ Rubin announced the indictment on Monday, 18 May 1998, while authorities had arrested the Mexican bankers on Saturday, 16 May 1998, so there was not much of a window to let the Mexicans know, but Albright is advocating the need to treat the Mexicans as partners. Senator Charles Grassley of Iowa vigorously protested Albright's letter to Rubin on the U.S. Senate floor on June 10, 1998, noting five different ways the indicted bankers had violated Mexican law with criminal intent, while the Casablanca agents had shown no criminal intent in violating Mexican law.⁶⁷ His attitude shows the U.S. tendency to become overbearing with the Mexicans when they do not respond in accordance with U.S. expectations.

Some additional notes on Operation Casablanca as a case study in the laundering of drug profits are worth mentioning as examples of the influence of certain Mexican authorities to inhibit cooperation with the United States. At the time, U.S. agents in Mexico had carried firearms informally without official permission from the Mexican government. After Casablanca, U.S. officials abandoned efforts to get this permission. Mexican officials also steadfastly opposed broader diplomatic immunity for U.S. agents. American officials also said they had informed the Mexican deputy attorney general and a deputy finance minister about U.S. suspicions concerning money laundering by the Juarez cartel during a January 1996 meeting in

Mexico City. When U.S. officials received no response from the Mexicans on a joint investigation proposal put forward at the meeting, they became suspicious of the Mexican government's intentions. The undercover agents on the Casablanca case noted that drug traffickers introduced them to the Mexican bankers in question; these financiers were surprised by the small amounts the undercover agents wanted to launder. The agents said the Mexicans were prepared to launder much more, in the hundreds of millions of dollars. U.S. agents had the name of a Mexican army general and rough identities of Mexican federal police agents that one suspect had fingered as money launderers, but the Americans chose not to pass this information to Mexican officials. Perhaps this saved some individuals an untimely death. One Mexican suspect, whom agents suspected as knowing the most about money laundering, did have his name and address passed to Mexican officials. He was arrested in Puerto Vallarta by Mexican state police and died of extensive head injuries in jail. The police said he had been acting strangely and hurt himself.⁶⁸

In the second money laundering case for consideration (this one on the northern side of the border), Wachovia Bank admitted in 2010 that it did not properly monitor funds to determine if they were illicit and being laundered while handling 378.4 billion dollars (approximately one-third of Mexico's annual gross domestic product) in accounts from Mexican currency exchange houses between 2004 and 2007. This was the largest violation of the Bank Secrecy Act, a U.S. anti-laundering statute, in history. Jeffrey Sloman, the U.S. federal prosecutor who handled the case, stated that Wachovia's blatant disregard for U.S. banking laws gave international cocaine cartels a virtual carte blanche to finance their operations.⁶⁹ In March 2010, Wachovia (which was acquired by Wells Fargo in 2008) paid the U.S. government 110 million dollars in forfeiture and a 50 million dollar fine in the case, a relatively paltry sum that was less than two percent of the 12.3 billion dollar profit that the bank earned in 2009! The bank also received a deferred prosecution that again placed the bank in good standing a year later in March 2011; no one in the United States went to jail. Robert Mazur, the lead U.S. law enforcement infiltrator into the

Medellín cartel in Colombia in 1991, stated that in regards to anti-laundering statutes, “the only thing that will make the banks properly vigilant to what is happening is when they hear the rattle of handcuffs in the boardroom.”⁷⁰

Following the 2010 joint U.S.-Mexican report and the Wachovia case, President Felipe Calderón did propose legislation in August 2010 that would ban cash purchases of real estate and of certain other luxury goods with values in excess of 100,000 Mexican pesos. The legislation would also require more businesses to report large transactions such as real estate, jewelry, and armor plating. In June 2010, the Mexican government announced strict limits on the amount of U.S. dollars that could be deposited or exchanged in Mexican banks.⁷¹ At last some strong action by the Mexican government against money laundering! But as of April 4, 2011, the Mexican legislature was still only considering Calderón’s proposal. Approval possibilities are considered low, since the opposition Institutional Revolutionary Party (PRI) currently holds 241 of 500 seats in the Chamber of Deputies and 35 of 128 seats in the Senate after the July 2009 election, while the National Action Party (PAN) of President Calderón holds 147 and 52 seats, respectively. Even if the law is passed, the Mexican judicial system does not currently have the capacity to handle the expected number of cases.⁷² As an innovative measure to achieve the intent of stopping money laundering, Calderón has now proposed that private citizens who provide actionable reports on suspected money laundering activities be awarded up to 25% of illicit funds or property seized, as determined by a special committee that will review each case.⁷³ Public servants, bank employees, and law enforcement personnel are not eligible as the reporting of such activity falls within their official duties. Such a proposal does not demonstrate Calderón’s confidence in the police and government to monitor the banking system for illicit activities, let alone in the ability of the Mexican banking system to police itself.

The current governor of Mexico State and a likely PRI candidate for president in 2012, Enrique Peña Nieto, proposed a four-pillar *National Strategy to Reduce Violence* in January 2011. His proposal included crime prevention measures especially focused on offering the

Mexican people alternatives to criminal activities; a police force that is specifically trained to combat organized crime and attack the money-laundering activities of criminal organizations; focus of efforts initially among the most violence-ridden municipalities and then expanding to the rest of Mexico; and a shared responsibility at the national level that will bind all levels of government and civil society to underpin long-term state policy. He noted this last pillar as an absolutely necessary ingredient and one that had been conspicuously absent in the last four years.⁷⁴ Nieto's reference to a lack of shared national responsibility to bind together the government and people in support of a national strategy is clearly indicative of the lack of consensus among all political and economic interests in Mexico that the flow of drug profits must be stopped.

BARRIERS TO SHARED NATIONAL INTEREST

A variety of factors reduce the Mexican government's and people's desire to fight a drug war that seems focused on the U.S. goal of reducing supply from Mexico, without simultaneously taking bold steps to reduce demand north of the border. First is a tried set of counteraccusations to the U.S. charge that Mexico is supplying drugs to its northern neighbor, such as the "insatiable American nose"⁷⁵ and the somewhat exaggerated figures of firearms bought with drug profits and then introduced into Mexico from the United States.⁷⁶ A representative of the Mexican Attorney General's office signed a contract with a New York-based law firm in November 2010 to explore filing civil charges against American gun manufacturers.⁷⁷ Second is the historical grievance of the Mexican-American War and the significant portion of Mexico taken by the United States in the peace treaty.⁷⁸ Mexico is particularly sensitive to questions of sovereignty on its territory. If one finds these counteraccusations and grievances hard to accept, consider the following two expressions of Mexican opinion. In the *BBC World Service Country Rating Poll*, only 23% of Mexicans expressed a positive view of the United States, as compared to 40% of Canadians and 64% of Brazilians (the world average was a 49% positive view of the U.S.).⁷⁹ At the Rio Group Summit

in September 1994, Mexican President Carlos Salinas de Gortari commented on the U.S. intervention in Haiti (Operation UPHOLD DEMOCRACY) as, “Having suffered and external intervention by the United States, in which we lost more than half our territory, Mexico cannot accept any proposal for intervention by any nation of the region.”⁸⁰ Other factors include Mexican suspicion of U.S. efforts to curb immigration,⁸¹ as well as a U.S. reluctance to use a strong hand against a significant Latin American neighbor for fear of upsetting relations with the entire hemisphere.⁸²

Mexico and the United States are neighboring countries. In many ways, the United States of America dominates the relationship with its southern neighbor. But Mexico dominates the narcotics relationship. If Americans want to buy drugs, Mexican cartels will produce and transport them to the U.S. market as long as it remains immensely profitable to do so. That is capitalist supply and demand with the peculiar distortions of the drug trade. Continued pursuit of the United States’ current counterdrug strategy will not change that relationship; there is simply too much money involved. As another example of the quantities involved, a 2007 search of a Chinese-Mexican drug precursor importer’s mansion in Mexico City yielded 207 million dollars in cash; two tons of one-hundred dollar bills!⁸³ The influence of this money has also crossed the border; the authorities charged with fighting the drug war in United States are not immune to corruption, either. In July 2007, after a months-long investigation, the FBI arrested El Paso, Texas, customs inspector Margarita Crispin for allowing marijuana shipments to pass through her post in exchange for five million dollars in bribes. In April 2008, she pled guilty to the charges and was sentenced to 20 years in prison in April 2011.⁸⁴ In the last five years, U.S. authorities have arrested almost 80 Border Patrol and Customs/Border Protection officers on corruption charges, almost all for taking bribes like Margarita Crispin.⁸⁵ Investigations are ongoing against hundreds of other U.S. border and customs officers; Senate hearings revealed that in the push over the last five years to add more Border Patrol and Customs and Border Protection officers to the ranks, only 10% received polygraph testing as part of the initial

application process, and of those, 60% failed.⁸⁶ One can only speculate on those applicants who were not tested and yet accepted for employment. Such figures do not lend moral authority to the United States in its efforts to demand action against the corruption identified within Mexico and its institutions.

RECOMMENDATIONS

A U.S. counterdrug strategy could attempt to foster a Mexican consensus that the influx of the enormous drug profits is harmful to the Mexican national interest. Accomplishing this objective merits detailed analysis and debate. But until the United States successfully implements such a policy, Mexican cartels will continue to repatriate their huge earnings with at least the indifference, if not the collaboration, of some portions of the government in Mexico City and its subordinate agencies at the state and local levels. As the author heard from a senior State Department official overseeing Andean affairs during an academic address at Fort Leavenworth, Kansas, in February 1997, the drug war could remain a black hole into which had disappeared ten billion dollars with little to show for it except the fact that drugs have never been available in purer form or more cheaply within blocks of American middle schools. As it is in the interest of certain groups in Mexico to receive the enormous drug profits, the solution seems obvious: take the money out of the trade. This is much easier said than done. The most direct measures to accomplish this purpose, legalization and/or decriminalization, could have multiple-order effects that policy makers cannot predict with any certainty. Consider the societal issues that the United States currently confronts with two legal drug sources: alcoholic beverages and cigarettes. Throwing marijuana, cocaine, and opium into that mix might court an absolute public policy disaster. In addition, a sudden reversal on U.S. policy towards even partial legalization is a difficult sell to any audience, as the recent failure of Proposition 19 in the fall 2010 California state elections showed.⁸⁷

Assuming for the moment that the money must remain in the drug trade, the United States also cannot attempt to compel the entire Mexican government to act resolutely to stop

the trafficking of narcotics over the border. Sovereignty violations such as cross-border armed unmanned aerial vehicle operations against cartel leaders and corrupt Mexican officials are not on the list of options, such as the strikes conducted on Pakistani territory as part of Operation ENDURING FREEDOM.⁸⁸ Regardless of the perceived gravity of the drug problem, the United States does not have the leverage against Mexico to seriously consider actions that violate Mexico's sovereignty given the current state of relations between the countries. Note the tone of recent comments by President Calderón about potential U.S. interference in Mexican affairs, specifically that he would not accept or tolerate any intervention; also note whistleblower allegations concerning the U.S. Bureau of Alcohol, Tobacco, and Firearms allowing automatic weapons to flow into Mexico in direct contradiction to the expressed mission of the agency.^{89,90,91,92} However, the United States can work with the Mexican government to strengthen the latter's institutions. This requires a cooperative, partnered effort, not an ultimatum from Washington to Mexico City whenever a serious issue emerges. Mexico wants and needs this help, if Washington will provide it in an acceptable manner.

One U.S. policy option that remains consistent with the Mexican national interest of receiving the enormous drug profits is a continued emphasis of educational and rehabilitative programs to reduce demand in the United States for illegal drugs.⁹³ Whether these programs will have a significant positive effect in the long-term to reduce demand for narcotic drugs remains a question. But such programs recognize that the solution to drug trafficking in the United States is not one of simply reducing supply from south of the border, but also of reducing the demand for narcotics in the United States.

CONCLUSION

Decisive action that removes the profit incentive from the drug trade remains infeasible at the present time. Various Mexican groups with vested monetary interest in this drug trade have demonstrated opposition to strong laws that combat money laundering. With many Mexicans dependent, directly or indirectly, on the drug trade for income as well, U.S. policy

makers cannot simply expect them to give up this source of income when there is really no alternative available.⁹⁴ Many more Mexicans might immigrate to the United States looking for work if no income is available from narcotics production south of the border. The bottom line remains that if drug profits stop flowing into Mexico, there is currently nothing to replace them as a source of liquidity for the Mexican economy. Increased vanilla sales, historically one of Mexico's most profitable agricultural exports at fifty dollars per kilogram, will not fill the gap.⁹⁵ The political, business, and criminal groups within Mexico that mutually benefit from the flow of drug money will not quietly give up their stakes in the trade and move on to new activities. Defeating them will require a long-term, concerted effort that continues the evolution of the Mexican political system from the authoritarian PRI system of the past to an accountable, representative government that enforces the rule of law for all Mexicans. As Octavio Paz noted, it may certainly be a very painful, very difficult road.

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